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Nation's Restaurant News®

THE NEWSWEEKLY OF THE FOODSERVICE INDUSTRY

SECOND CLASS

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High-flying Azalea partners unveil suburban Pacifica

by Jack Hayes

DULUTH, Ga. — Roused by the success of their Asian-American-Mediterranean-fusion concept, Azalea — which grossed $2 million in its first year catering to well-heeled residents of suburban Buckhead — Thomas Catherall and Todd Kane will launch Pacifica this week in Gwinnett County, 30 miles north of downtown Atlanta.

Spending somewhat more than $500,000 to renovate the 3,600-square-foot space that formerly housed a tablecloth restaurant called Boni's, Catherall and Kane are projecting annual sales of $3 million on average lunch and dinner checks of $12 and $28, respectively.

Pacifica is located in a retail annex that is adjacent to Gwinnett Place regional mall, facing the newly opened Mick's casual neighborhood restaurant, a concept owned by Atlanta-based Peasant Restaurants Inc.

"The only people questioning why we're here are the people from Buckhead, but we believe we'll create a market," said Catherall, the master chef who won the 1990 American Seafood Challenge in New Orleans during his stint as execu-

(See *PACIFICA, page 88*)

The opening team at Pacifica. From left: Sam Fallaw, general manager; Richard Mendoza, chef; Todd Kane, managing partner; and Thomas Catherall, executive chef and partner.

Operators hit with barrage of new taxes

by Peter Romeo

Lawmakers from coast to coast are cutting into restaurants' profits by bombarding operators with additional taxes and government fees.

"It's happening all over," said Rick Walsh, vice president of government relations for General Mills' Red Lobster and Olive Garden dinner-house chains. "When you get in a recession, tax revenues start drying up because sales and income drop. They're trying to make it up with more taxes."

Most of the additional assessments are the sort that affect the whole business community: corporate income tax increases, sales tax hikes, utility fees, payroll surcharges and so on.

But many state and local governments are trying to squeeze a few more dollars out of restaurants by raising the fees for permits and government approvals needed to operate a foodservice outlet.

In North Carolina, for instance, restaurateurs are now charged an annual fee of $25 to fund inspections by state sanitation officials. Initially officials wanted to charge $150, or $2.25 per seat if that sum was higher.

Facing a $1.2 billion budget deficit, politicians there are eyeing such other revenue-boosting measures as raising the fees for wine and beer sales permits by 100 percent; increasing the permit fees for restaurant billboards and other outdoor advertising by 900 percent, to $200; and extending a sales tax on soft drinks to cups of coffee and tea.

"They've hit us on everything," said Jerry Williams, executive vice president of the North Carolina Restaurant Association. "We had a tax free-for-all down here. State, local and county government put out every fishing pole they had to

(See *LEGISLATORS, page 88*)

Florida restaurateurs drive for efficiency to outlast 'off-season'

by Jack Hayes

ORLANDO — Struggling to maintain profits in a feeble economy, restaurateurs from Miami to Tallahassee are on a do-or-die drive for efficiency — restructuring the purchasing, production, marketing and service aspects of their operations to boost margins until the more lucrative tourist season shifts into gear later this fall.

Wielding their cost-cutting knives not haphazardly but aggressively, most restaurateurs interviewed at the 1991 Southeastern U.S. Foodservice Expo said profits would have to come from the implementation of operational efficiencies while they themselves wait for customers to start spending again.

"Efficiency is No. 1," said Beirne Brown, 1991 Florida Restaurant Association president and president of Naples, Fla.-based Cuisine Management, which owns six restaurants along the Gulf coast.

Brown, who moderated a round-table seminar on fine dining during the Expo, said most operators agree that reducing expenses becomes essential once sales-building tactics are tried and exhausted.

In fact, operators in every service segment, from fast food to white tablecloth, are poised lean and mean as they watch for signs of economic recovery — which is no surprise after a two-month traffic slump last spring following a decade of high-flying statewide growth.

"When you've tried every-

(See *FLORIDA, page 89*)

McD 'Leaps & Bounds' into child recreation business

by Richard Martin

NAPERVILLE, Ill. — McDonald's Corp., stung by domestic sales declines and fast-food discounting warfare, is taking its first-ever leap into a business niche unrelated to the burger empire's restaurant format or Golden Arches brand identity — the fledgling indoor-playground field.

The company's split-level, 11,000-square-foot Leaps & Bounds prototype is replete with elaborate slides, play gear, non-video games, party rooms, a 350-foot-long suspended tunnel and a physical-fitness coaching staff trained to monitor children ages 1 through 10. The recreation center is scheduled to open this month in a year-old strip mall in this suburb west of Chicago.

Leaps & Bounds will include a snack bar, but it will serve turkey hot dogs, granola bars, fresh fruit, juices and pizza instead of hamburgers and french fries. The overall concept "focuses on the play areas, not on the food service," said McDonald's spokeswoman Terri Capatosto, adding that the venture's "light-snack concession is not intended to be a restaurant."

She said the recreation-center prototype, which won't project any discernible affiliation with McDonald's, would

(See *MCD, page 89*)

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Vol. 25, No. 35 September 9, 1991

NEWS BRIEFS

Calif. operators likely to see legal costs rise

SACRAMENTO, Calif. — California's independent restaurateurs and other small business owners could see their legal bills skyrocket if a state agency is permitted to award damages in workplace discrimination cases.

Senate Bill 827 would empower the state's Fair Employment & Housing Commission to award up to $200,000 in damages in workplace discrimination cases. Under the current system, the commission can only order employers to reinstate workers with the appropriate back pay, benefits and promotions. Employees who believe they are entitled to additional monetary damages can secure an attorney, often on a contingency basis, and take the matter to court.

Jo-Linda Thompson of the California Restaurant Association said S.B. 827 was approved by the Senate and the Assembly Ways & Means committee and was expected to win the approval of the full Assembly and the governor.

Because the liability of employers at the commission level is now somewhat limited, some small business owners feel they can afford to contest unfounded discrimination charges without the help of labor attorneys, who often charge $200 to $300 an hour. Thompson said that if the commission is permitted to award damages, small business owners will have to hire an attorney at the outset of any discrimination proceeding regardless of its merit.

S.B. 827 is not expected to hurt large companies with in-house legal counsel and sophisticated human-resources departments to the same extent as smaller businesses.

Commerce Dept. suspends fishing of red snapper

WASHINGTON — The U.S. Commerce Department has suspended commercial fishing for red snapper until Dec. 31, spurring restaurateurs who feature the species to switch to alternative fishes.

Commerce's National Oceanic and Atmospheric Administration imposed the ban to replenish red snapper schools, which have been depleted in recent years by the growing popularity of the fish.

Meanwhile, a Massachusetts congressman has introduced federal legislation to reduce the number of flounders and other "ground fishes" that can be taken from the waters off New England. Rep. Gerry Studd's bill aims to restock the once-fertile fishing grounds off the Massachusetts coast.

11 El Pollo Loco franchisees sue TW for $90 million

IRVINE, Calif. — Eleven El Pollo Loco franchisees are suing the Irvine-based chicken chain's parent firm, TW Holdings Inc., for at least $90 million in damages over its alleged failure to support marketing, product development, volume purchasing and expansion programs adequately.

In the lawsuit filed in Orange County Superior Court, the franchisees contend that 13 of their 49 grilled-chicken outlets have closed as a result of the franchisor's shortcomings, including its inability to maintain a growth pace that would enable the chain to reach a goal of 500 fast-food restaurants by 1992.

El Pollo Loco, which grew rapidly in Southern California but not in expansion markets, currently has 117 company-owned and 101 franchised stores.

In published reports, James C. Verney, El Pollo Loco's chief operating officer, acknowledged the difficulties faced by some franchisees but described the lawsuit as meritless. The suit asserts that Spartanburg, S.C.-based TW Holdings slighted El Pollo Loco and favored its sister chain, Denny's, after acquiring both outfits in 1987.

BK replaces boxes with recyclables, rolls curly fries, barbecue sandwich

MIAMI — Burger King Corp. is replacing its coated-paper sandwich boxes for more easily recycled paper wraps.

Called "earthhappy packaging," the new paper is expected to reduce the Miami-based burger chain's waste disposal by up to 15,000 pounds per year, the company said.

BK's traditional bleached-paper food bags will also be replaced gradually with sacks made from recycled newsprint.

At the same time BK rolled two new menu items as part of a recurring, short-term promotion program.

One of the additions, the Bull's Eye Barbecue sandwich, continues the company's current strategy of developing menu items that incorporate well-known branded products. In this case the sandwich is prepared with Bull's Eye Barbecue sauce.

The sandwich, which consists of two hamburger patties, bacon, cheese and the barbecue sauce on a bun, is receiving heavy television support that will continue through the end of the summer.

Burger King has also launched Twister Fries, a curly french fry product. As part of an in-store promotion only, the company is selling the new fries for $1.29 in a medium-sized soda cup with a medium-sized soda.

Company spokesmen said both items are limited, short-term promotions that will be periodically introduced.

Terczak opens grazing concept called Ketchup

CHICAGO — John and Linda Terczak are opening a light-hearted grazing concept, Ketchup, next door to their home-style-cooking eatery, Terczak's.

The 60-seat restaurant and bar are decorated in a spirit of fun. The walls are painted the color of ketchup, accented with black sponge marks. Bar stools are covered in fabrics featuring Dick Tracy, Teenage Mutant Ninja Turtles, Bart Simpson and Batman.

The menu includes gourmet pizzas priced between $5 and $8; pastas from $3.50 to $7; salads from $2 to $7 and meat loaf, chicken and steak sandwiches from $3.50 to $7. Spaghetti ice cream, processed through a pasta press, with fruit puree is a signature dessert.

In anticipation of attracting the late-night crowd, Ketchup is open from 5:30 p.m. to midnight weeknights and till 1 a.m. weekends.

The Terczaks also own Tamales, a casual Mexican and South American restaurant, in a nearby North Side neighborhood.

New unit formed to handle McD's advertising efforts

NEW YORK — The Interpublic Group of Cos. will consolidate $100 million in advertising for McDonald's Corp. at a new unit created to handle local franchisee advertising efforts and the chain's growing foreign advertising drive.

Interpublic said it would shift about $80 million in billings for McDonald's domestic franchisees to McCann-Erickson Universal Group, a new unit of McCann-Erickson North America New York.

The new unit will also handle about $20 million in McDonald's advertising in 10 countries.

Thomas Lawson, the president and chief executive at Laurence, Charles, Free & Lawson — the company that has created McDonald's local advertising since 1974 — has been named managing director of the new unit as well as the agency's worldwide coordinator of McDonald's business and executive vice president of McCann-Erickson North America.

Philip H. Geier, Interpublic's chairman and chief executive, said the consolidation offers McDonald's a more comprehensive network of offices to serve its franchisees.

Restructuring plan approved for Trump's Taj Mahal

CAMDEN, N.J. — A bankruptcy court judge here granted approval to Donald Trump's Taj Mahal Casino in Atlantic City for a plan that would restructure its debt by giving up half of the developer's equity in the property.

The approval, which came six weeks after the Taj Mahal filed for Chapter 11 bankruptcy protection, gives the bondholders equity in exchange for their acceptance of lower interest rates.

FINANCIAL NEWS

Buffets Inc. profits jump despite slowed economy

EDEN PRAIRIE, Minn. — Buffets Inc. steamed right along through the second quarter, posting a healthy 31-percent increase in net earnings, to $3 million, on a whopping 40-percent jump in sales, to $47.3 million.

The company, operator of 105-unit, all-you-can-eat, self-service Old Country Buffet chain, bucked both the recession and the Gulf war impact — factors that battered many of its competitors — in posting a strong first half.

For the 28-week period ended July 17, net earnings rose 22 percent, to $5.5 million, on a 34-percent jump in sales, to $100.4 million.

The company, which operates in 18 states, owns 99 restaurants and franchises six.

Value-oriented Old Country Buffet may be enjoying some of its gains in customer traffic and sales from the cafeteria chains, which are still struggling to halt sales erosion.

"The cafeteria segment is being battered by demographic changes," said analyst Bryan Elliott of The Robinson-Humphrey Co., Atlanta. 'Cafeterias just haven't figured out how to attract the aging flower children. Traffic counts and market share are both declining."

"Buffets has been . . . an interesting juxtaposition," Elliott said, "moderate prices, a full range of offerings — and a shrewd site strategy."

Old Country Buffet has managed to make money on a formula centered around low prices and an all-you-can-eat format.

"One of Old Country Buffets' advantages is that they reserve the right to limit how much a customer takes," said Robinson-Humphrey's Elliott. Thus they can discourage "cannibalizing" and still offer an attractive buffet selection, he added.

"When the wrestling team comes in, they can give them a hard enough time so that they don't come back," Elliott said, joking.

Buffets is continuing to expand rapidly, opening an average of two new restaurants per month this year throughout the South and Midwest.

The 7-year-old company opened four restaurants during the second quarter, in Toledo, Ohio; Columbus, Ohio; Bridgeville, Pa.; and Newport News, Va. Two more units have opened since the quarter ended, with another 13 company restaurants expected by year-end.

Copeland Enterprises hammered by interest expenses in 2nd Q

JEFFERSON, La. — Al Copeland Enterprises, operator of the Popeyes and Church's fried-chicken chains, reported a $7 million loss for the second quarter ended June 16.

In the year-ago period, the company lost $4.7 million.

For the most recent quarter, revenues fell 14 percent, to $101 million.

In a debtor-in-possession securities filing, the company attributed the losses to interest expenses linked to the 1989 acquisition of Church's and costs incurred in the company's restructuring.

> For the most recent quarter, revenues have fallen 14 percent, to $101 million.

Interest expenses totaled $8.8 million for the quarter and $20 million for the first six months of the fiscal year. The company said it had spent $2.6 million to restructure in an unsuccessful attempt to stave off bankruptcy.

At the half-year mark, ACE said it lost $17.1 million on a 13-percent decline in revenues, to $221.9 million. It lost $13.9 million during the first half of fiscal 1990.

Revenues fell partly as a result of operating 73 fewer restaurants than ACE did a year ago, the company said.

FOOD PRICE OUTLOOK

Bumper crops reported in new harvest

by Patt Patterson

As harvesting progresses throughout the country, one hears reports of some commodities that will be in good supply from bumper crops. The **apple** crop this year, according to the U.S. Department of Agriculture, will be the largest since that of 1987, up 4 percent over last year's. The USDA report represents an increased estimate for Washington state apples, where improved weather had boosted the forecast.

Peanut prices, one hopes, will drop a bit as the result of the largest acreage since 1951 and an outlook for strong yields. Forecasts are for a crop that will be more than 40 percent higher than last year's and may reach the record set in 1984 . . . Looks like lots of **pecans** this year; quality is the only unknown now.

Potato production this summer is up a bit overall, with tonnage down in the East but up in the West. Altogether, supplies slightly larger than last year's should be available . . . The **dry-bean** harvest may fall about 4 percent lower than last year's — which was a bumper year — but will be more than 30 percent above that of 1989.

Lettuce of all types, iceberg and leaf, are still at the lowest seasonal prices despite a little run-up in mid-August — which didn't last long. Romaine is showing some increase in price . . . **Celery** prices are down on large supplies . . . **Strawberry** supplies have been good all season. Fresh prices are low, and the frozen pack is up 12 percent over last year's. Mexican imports are down about 14 percent, but lowering frozen strawberry prices are showing the effects of the strong California pack.

On the short side: **Tomato** deliveries to packers are running far behind last year's at this time, but tomato harvesting has been late because of cool weather in spring and early summer . . . Both canned and frozen peas are in shorter supply than usual.

The ripe **olive** pack is expected to be short this year, an off-year for the trees, exacerbated by freeze damage last Christmas . . . Canned **pears** will be in shorter supply . . . Cling **peach** supplies will be shorter, with fewer imports and more exports of a smaller California pack.

FACT FILE

HOTEL CHAINS RANKED BY U.S. FOODSERVICE SALES

1991 Rank	1990 Rank	Chain	Fiscal Year Ends	Systemwide Sales (By Fiscal Year, In Millions) Current*	Last full	Prior
1	1	Marriott Hotels & Resorts	Dec. '91	$1,286.0	$1,216.0	$1,106.0
2	2	Sheraton Hotels	Dec. '91	1,132.0	1,046.0	903.7
3	3	Hilton Hotels	Dec. '91	1,020.7	940.7	841.2
4	4	Holiday Inns	Dec. '91	595.1	573.9	547.4
5	5	Hyatt Hotels	Jan. '92	407.8	381.9	350.5
6	6	Radisson Hotels	Dec. '91	400.0	350.0	278.0
7	7	Ramada Inn	Dec. '91	381.9	335.1	328.2
8	8	Westin Hotels	Dec. '91	304.8	291.4	285.6
		TOTAL:		$5,528.3	$5,135.0	$4,640.6

Source: NRN Research *Projected

FINANCIAL DIGEST

Lower costs double Bertucci's 2nd-Q net

WOBURN, Mass. — Bertucci's Inc., an Italian-themed dinner-house operation here, reported a 112-percent gain in net income, to $548,000, on a 26-percent gain in revenues, to $8 million, for the second quarter ended July 13.

In its first earnings statement since going public in July, Bertucci's said tighter controls on expenses and sharply reduced food costs fueled the earnings growth.

At the half-year mark, Bertucci's net income was $1.2 million, for an 82-percent jump, and revenues were $17.9 million, up 30 percent.

Bertucci's operates 21 full-service dinner houses specializing in brick-oven-baked pizzas.

Bob Evans' 1st-Q net income rises 7%

COLUMBUS, Ohio — Bob Evans Farms' restaurant division reported a 7-percent increase in net income, to $7.2 million, on a 10-percent gain in revenues, to $99.3 million, for the first quarter ended July 26.

The company said revenues grew as a result of sales contributions from four new restaurants opened during the quarter.

Bob Evans said its diversification would begin later this month when it breaks ground for Cantina del Rio, the company's Tex-Mex entrant in the casual dinner-house market.

Meanwhile, Bob Evans said it intends to improve same-store sales with a new dinner menu made up of weekday daily specials that include open-face roast beef sandwiches. The new menu will be targeted to adults and young families with children.

Del Taco looses $201K in 2nd Q

ATLANTA — Del Taco Restaurants said a program to reduce overhead failed to stem a $201,000 loss in the second quarter ended June 26.

Revenues slid 14 percent, to $11 million, during the period.

The company said it initiated a program to reduce overhead and other operating expenses late last year, but the cost reductions were not strong enough to offset the faster decline in sales.

Sandwich Chef's net rises 20% for F 91

MEMPHIS, Tenn. — Sandwich Chef said its net income rose 20 percent, to $760,000, on a revenue game of 11 percent, to $41.3 million, in the fiscal year ended June 29.

During the year, Sandwich Chef opened 19 stores systemwide and closed or sold 18 poorly performing units.

The shuttering of several underperforming stores and margin improvements from newer units helped Sandwich Chef post a 32-percent increase in fourth-quarter profits, to $313,000, on a 13-percent gain in revenues, to $11 million.

Opening expenses yield loss for Eateries

OKLAHOMA CITY — Although Eateries Inc.'s revenues increased 16 percent, to $3.4 million, the company said it lost $78,000 for the second quarter largely as a result of onetime charges related to opening four of its Garfield's Restaurants & Pubs.

The loss compares with an $18,600 profit in the year-ago quarter.

At the half-year mark, Eateries lost $43,700 on a 21-percent increase in revenues, to $6.6 million.

Along with Garfield's, Eateries also operates Dugout Sports Bar & Grill restaurants.